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ABSTRACT

This is one of several papers presented at a Federal Trade Commission Symposium on Media Concentration. It reviews the controversy between book publishers and the Authors Guild concerning the control of already published materials and the future of publishing, and it analyzes the market structure in order to put the issues into perspective. Some of the reported findings concerning the market structure indicate that: the major shift in concentration in book publishing occurred between 1958 and 1963; the four largest publishers control only 16% of the market, but the first four firms in the mass paperback submarket control an estimated 59% of the market; none of the seven major paperback firms is an independent enterprise; and the top 50 firms have considerably increased their share of the market over the last two decades. A series of connected research questions are suggested: (1) the analysis of the structure of the market and the relations between firms needs to be extended to all subfields in the industry and, where applicable, to suppliers, wholesalers, etc.; (2) a major hypothesis emerging is that there are a number of specifiable advantages of bigness; and (3) a thorough analysis of mergers and acquisitions in which publishing houses have participated since World War II combined with an evaluation of the life cycle of new and independent firms is required. (MKM)

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"Patterns of Change within the Publishing Industry"

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Introduction

The business of publishing books today takes place in an uncertain and controversial atmosphere. Critics, commentators, the industry's analysts and its potential regulators are actively debating the definition of today's publishing industry. Academic and trade authors as individuals and through the Authors Guild are raising questions concerning the control of already published material and the future of "serious" publishing. McGee (1977;1978) has made a formal argument that it is increasingly difficult and may soon be impossible for most scholars to publish research monographs because newly dependent publishers will now have to be accountable for profits to the administrative hierarchy of integrated firms, (Compaine, 1978; Powell, 1978; Publishers Weekly, 1978; Authors Guild Bulletin, 1978; Backe, 1977; BP Report, 1977).

Book publishers, in a more coherent fashion than their diffused critics, responded first with a lengthy press release in May, 1978, and again with a series of informative articles in the July 31 edition of the trade serial, Publishers Weekly. The twelve "basic facts" presented by the Association of American Publishers can be summarized as follows. Book publishing stands out as an industry which survived the merger decades of the American economy without appreciably increasing concentration while actually increasing by 25% the number of firms competing for an expanding market (AAP, 1978):

> During the period 1958-1972, mergers and acquisitions had little or no effect on competition or concentration in the market owing to the dramatic expansion of the entire market for books, an expansion shared by both large and small publishers.

The AAP position is that mergers during the recent 25 years were a response to the market (AAP, 1978).

> ...the felt need (of publishers) to pool resources in order to survive or strengthen their competitive ability...(and that rapid expansion required) the revitalizing infusion of the substantial new capital provided by mergers.

The publishers state further that mergers more often than not involved "quite small" houses whose imprints were salvaged by acquisition. They claim that only a handful of mergers included non-publishing conglomerates and that "the interest of non-publishing conglomerates seems to be diminishing (AAP, 1978)."

The industry statement also points out an increase in the production of new fiction titles during the merger years and the maintenance of authors' royalty rates and growth in authors' income.

The PW Special Report "The Question of Size" (1978) examines with some detail concentration ratios for book publishing and related industries (such as printing), and reviews the perspectives of publishers, authors, and so on. I will not summarize the arguments made there. I will instead begin, as PW does, with an analysis of concentration in the book industry. By carefully specifying the market structure I will be able to

put into perspective some of the issues raised earlier.

Market Structure

Market structure refers to relations among firms in associated markets including the number and size of firms, vertical integration, and barriers to entry and mobility. Seller concentration ratios are a common and useful indicator of market structure. Table 1 compares concentration in the book publishing industry with concentration in the popular music and tape industry. Publishing is much less concentrated than the music business. The four firm concentration ratio for the book business is 16 or 18 at each point measured in the 15 year span. Records, on the other hand, range from 74 to 68, 58 and 47. This means that in 1972 the 4 largest record firms accounted for 47% of the industry's total value of shipments, while for the same year the 4 largest publishers controlled only 16%.

The major shift in concentration in book publishing occurs between 1958 and 1963 when the four firm concentration ratio goes from 16 to 18 and the eight firm concentration ratio increases from 26 to 29. In contrast to the trend in publishing the four firm concentration ratio for the record industry moves from 74 to 68 and the eight firm concentration ratio from 84 to 74. The record industry is deconcentrating during the same span of time when book publishing is concentrating. This suggests that: a) concentration is not a one directional phenomenon; that is, that an industry may increase or may decrease

the level of concentration; and b) changes in concentration are not easily interpreted by one's reflecting on the cycle of the general economy.

Peterson and Berger (1975) maintain that, in the case of phonograph records, the early (1945-1955) oligopolistic market structure was not the response of an industry to the invisible hand of the market; nor were the extremely low financial barriers to market entry sufficient elements of the market structure to insure competition or to provide a diversity of products (Smith, n.d.). Peterson and Berger argue, to the contrary, that the strategy of vertical integration, "control of the total production flow from raw materials to wholesale sales," determined the oligopolistic structure of the industry.

This particular strategy and structure, wherein integration yields concentration because of the competitive advantages of administrative coordination or the "visible hand" is hardly an inevitable development (Chandler, 1977). Book publishing has not yet matched the pattern of industrial development Chandler calls the modern business enterprise. It has however left forever behind that which some have referred to as a cottage industry with strong craft related elements of organization (Coser, 1975; Lane, 1975; Powell, 1978).

In Table 2 we see that in contrast to the industry in general, the mass market paperback submarket is oligopolistic; that is to say, the first four firms control an estimated 59% of the market. Much more than for any other segment of the book business, paperbacks developed with a mass production

TABLE I

Concentration Ratios for the Record & Tape and Book Publishing Industries

Census[1] Year	Number of Companies[2]		Value of Shipments[3] (by $1 mill.)		Percent of Value Accounted for by Largest Companies							
					4		8		20		50	
	Records	Books	Records	Books	Records	Books	Records	Books	Records	Books	Records	Books
1972	537	1120	537.1	2915.4	47	16	60	27	75	52	85	75
1967	306	963	271.1	2255.3	58	16	67	27	80	52	91	75
1963	128	936	178.7	1547.8	68	18	74	29	83	52	93	73
1958	85	883	136.2	1010.7	74	16	8	26	88	45	97	63

1. The U.S. Bureau of the Census. The census of manufacturers is conducted every 5 years.
2. Companies refers to business organizations consisting of one establishment or more under common ownership or control.
3. Value of Shipments refers to the net values, f.o.b. plant, after discounts and allowances and excluding freight charges and excise tax. The value of shipments is for all books published by all organizations.

TABLE 2

LARGEST PAPERBACK PUBLISHER BY MARKET SHARE 1976

Publisher	Estimated Share
Bantam	20%
Dell	15
CBS (Fawcett-Popular Library)	14
New American Library	10
Ballantine	9
Pocket	9
Avon	7
Largest Seven	84

Source Knowledge Industry Publications Inc. Reprinted from Benjamin M. Compaine, The Book Industry in Transition, KIPI, White Plains 1978.

technology. From its birth in 1939 up into the 1960's, the growth of the mass market book industry must in great part be attributed to three sets of circumstances: the ready and inexpensive availability of editorial input; the possibility of large, fast, and economical print runs because of the new rubber plate rotary press; and an available mass scale - 80,000 outlets - distribution network (Compaine, 1978).

Not one of the seven firms in Table 2 is an independent enterprise. There is nothing exceptionally dark and shadowy about the structure of the mass market paperback submarket. It does however introduce a contrasting pattern to that of the book industry in general and it may raise important research questions concerning integration and diversification which I outline later in the paper.

In order to more precisely specify the change in concentration in book publishing between 1958 and 1964 I plotted the cumulative proportion of the number of firms having concentration ratios against their cumulative market share. This is known as a Lorenz Curve and it adds several data to the concentration data. One, it is a graphic representation of the inequality in a system - in this case the publishing industry. Two, it suggests calculating a Gini index which expresses statistically the amount of inequality represented on the graph. Three, it fills in the picture outlined by the discrete values of the concentration ratios. The census data tell only the amount of inequality at 4 particular points in the system.

Figure 1

Lorenz Curve and Gini Coefficient

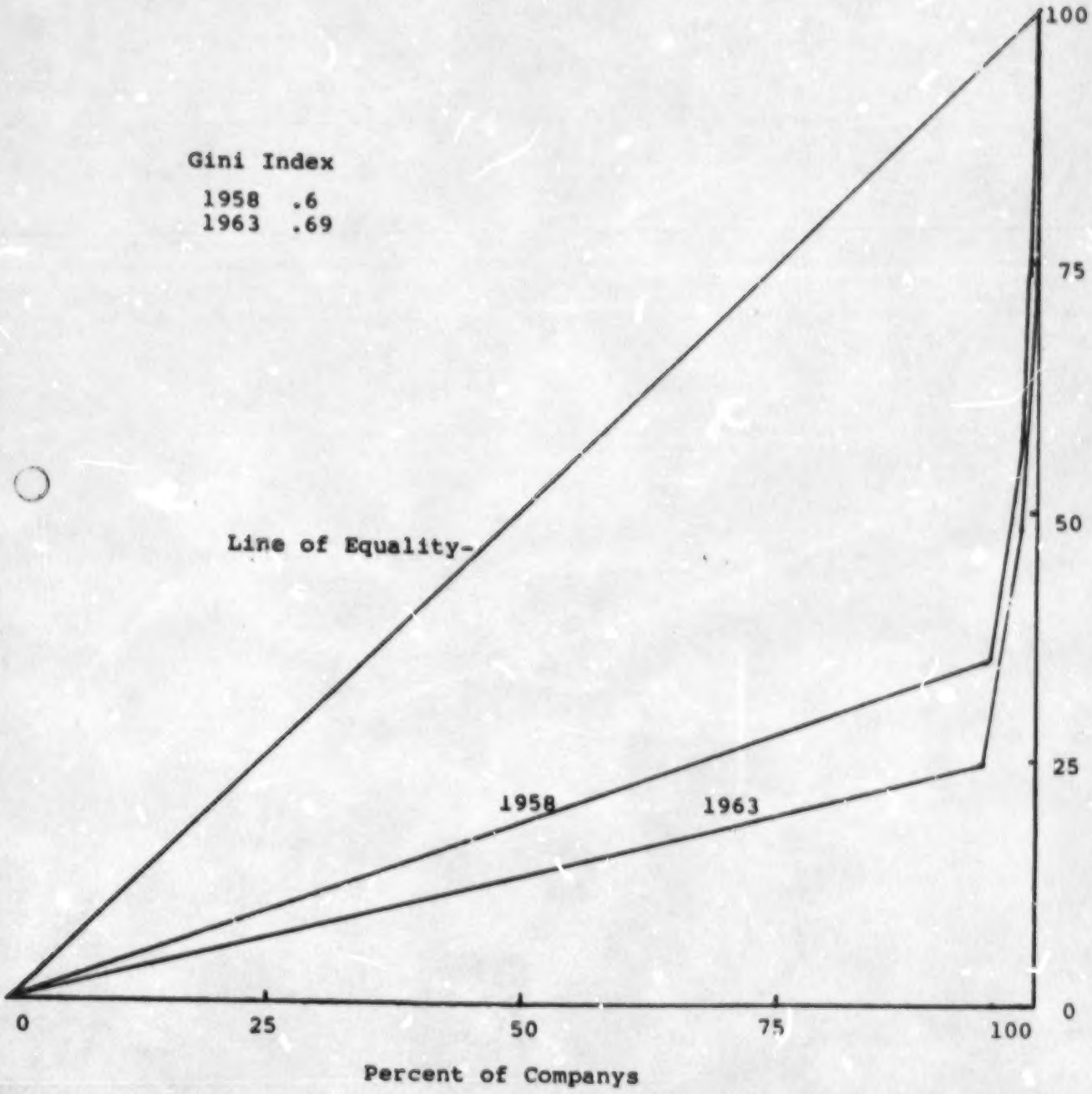
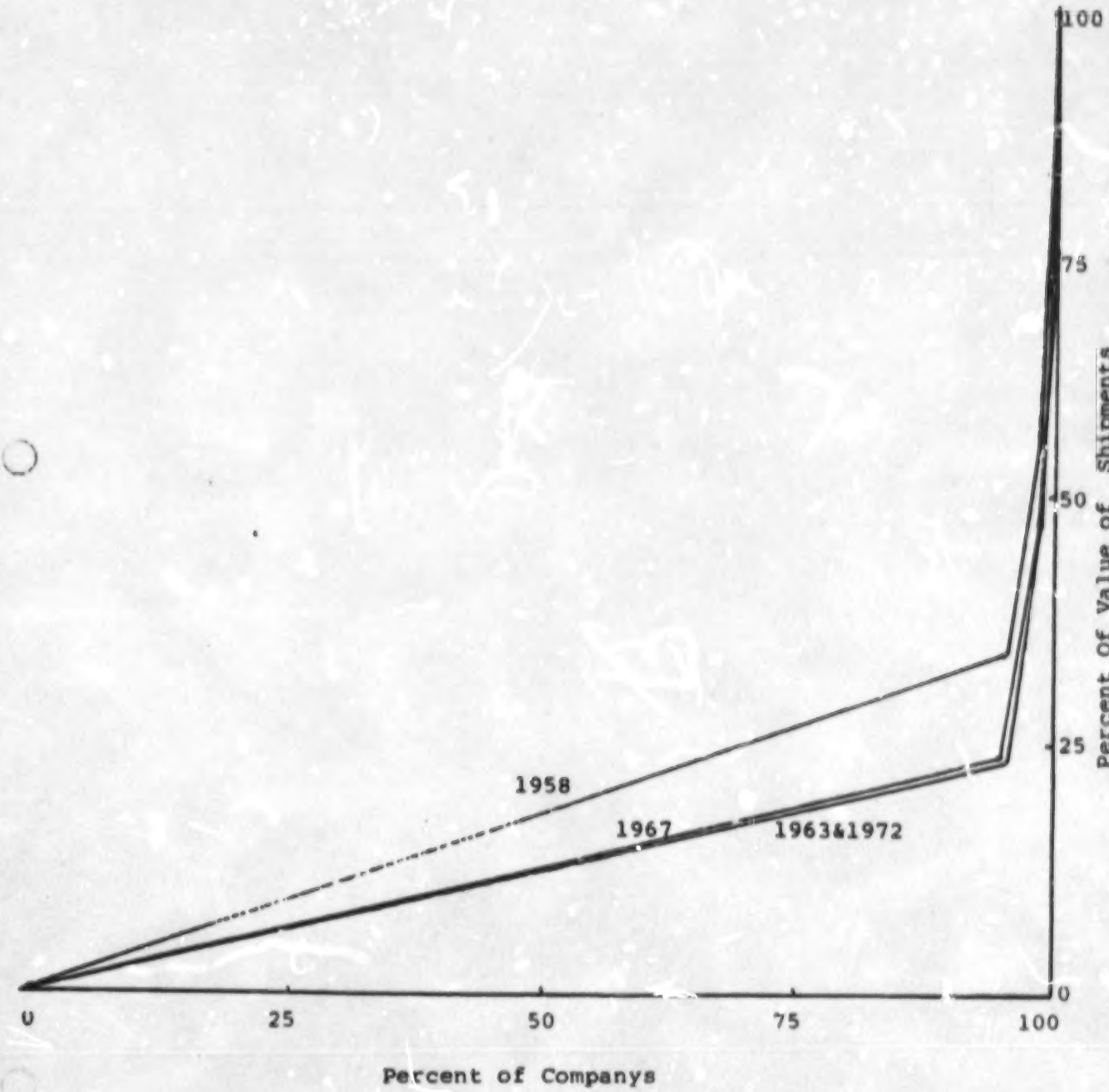


Figure 2

Lorenz Curves for Census Years



The Lorenz Curve allows us to see the whole system and all the inequality (Alker, 1965).

Figure 1 represents the Lorenz Curves for the 1958 and the 1963 concentration ratios. The area between the two curves represents the change in system inequality between the two years. The area between either plot and the Line of Equality represent system inequality. The Gini index is standardized so it ranges from 0 to 1. The Gini index for 1958 is .6 and for 1963 it is .69. Another way to express these relationships is to say that in 1958 book publishing was 60% of the way towards complete inequality - in this case that would theoretically mean a (one company) monopoly. In 1963 the industry was 9% closer to total inequality.

Figure 2 displays the Lorenz Curves for the census years we have been considering: 1958, 1963, 1967 and 1972. The Gini index for 1967 is .7, for 1972 it is .71.

So far we have found a not very concentrated industry with a fairly high level of inequality, an expanding market, and increasing elements in the system. The business of new elements is usually brought forward to indicate the well being of competition in the industry. For instance, the PW Special Report includes data from the International Directory of Little Magazines and Small Presses which indicate an increase in listings of small publishers from 997 in 1974 to 1950 in 1978, an increase of nearly 96%. These companies are not included in my calculations nor anyone else's. If one is to take the proliferation of these tiny houses seriously one must realize

that they have little if any effect on concentration.

There is a very big difference between the operation and market chances of the largest firms and the smallest firms even in an unconcentrated market. (This is partially expressed by the Gini indexes). Still excluding the small presses, I divided the market between the top 50 firms and the rest. An arbitrary choice but one based on the industry's low concentration. Fifty firms allows us to separate the bulk of the market (75% from 1972 on) from the great mass of firms. As a method of controlling for inflation I converted the value of receipts to 1972 equivalents using the Consumer Price Index.

Table 3 allows us to compare, in the most current values, the growth of large firms with that of smaller firms. For example, in 1958 the elite tier - the top 50 firms - were about 5.7% of the elements in the system and they controlled as you recall 65% of the value or $950.53 million. This left $511.83 million to the remaining 833 firms. In 1963 the elite tier shared $1.543 billion, leaving $571 million for the 886 firms left in the market. The elites' share increased by roughly 62% while the smaller firms' share increased by only 11%.

The pattern continues through 1972. Over the 14 years covered here most of the growth experienced by the industry was funneled into the largest firms. Between 1958 and 1972 the value of shipments accounted for by the top fifty rose by

TABLE 3

DISTRIBUTION OF THE VALUE OF SHIPMENTS OF BOOKS*

		Elite Tier	Mass of Firms
1958	Percentage of Firms	5.7 (50)	94.3 (833)
	Value of Shipments	950.53	511.83
	Mean ($\bar{x}$) Value of Shipments	19.	.61
1963	Percentage of Firms	5.3 (50)	94.7 (886)
	Value of Shipments	1543.9	571.03
	Mean ($\bar{x}$) Value of Shipments	30.8	.64
1967	Percentage of Firms	5.2 (50)	94.7 (913)
	Value of Shipments	2119.42	607.47
	Mean ($\bar{x}$) Value of Shipments	42.3	.77
1972	Percentage of Firms	4.5 (50)	95.5 (1070)
	Value of Shipments	2186.5	728.85
	Mean ($\bar{x}$) Value of Shipments	43.1	.68

*The values for shipments shown here are the total value for all books published by all organizations, including firms not classified by the Bureau of the Census as book publishers. The figures are adjusted to 1972 dollars and are multiplied by $1 million.

130%; growth in the remaining market was only about 42%. At the same time the number of houses competing for the left-overs rose 28% from 833 to 1070. The average share of the elite firms grows from about $19 million in 1958 to about $43 million in 1972. The average share for the rest of the industry is relatively stable within a $600,000 to $700,000 range. Table 4 indicates that the distribution of shares among the top 50 firms is unusually consistent over the 14 year period displayed. The Gini index for the elite segment of the market for 1958 is .34, for the other census years it is .36.

The claim by the AAP that concentration has not increased in book publishing is pretty well substantiated by the data. Their assertions that large and small houses shared in the growth market, and that competition was not effected by merger activity must be reconsidered in light of my findings.

The large firms grew and they changed concomitantly while the small firms changed very little. The meaning of big then changed in absolute and of course in relative terms. But the meaning of little changed only relative to the seemingly giant publishing leaders. Small firms (not the tiny little presses) are competing with larger and larger marketing and distribution networks.

While the numbers can never be precise they do indicate that there are competitive advantages to size which are having effects on the market structure. One effect is the two tier or

dual nature of the industry with a relatively small group of large companies controlling the market and a growing band of newcomers and veterans playing the field. Powell (1978) has suggested that this may perhaps work out to be two very separate ball parks: One with big books, large stakes and therefore big winners and losers; the other would be the arena for serious publishing.

The pattern of differential growth between the top group of houses and the rest suggests a strong economic interdependence between strata, not just a simple division of labor. For instance, smaller houses, especially those offering books with a limited sales but high cultural appeal are very often dependent on the marketing apparatuses of large companies. Also, the availability of an army of experimenters and innovators relieves the "majors" from having to conduct anything but the most conventional culture. When a line or imprint is successful the big guys have the option of using their economies of scale to set up a competitor which will also share those advantages or they can try to buy in. Going firms generally have an advantage over other new entrants to a market (Caves and Porter, 1977). It is also no secret that successful companies are more likely to be the ones acquired or merged with another to gain economies of scale or to gain some competitive edge through integration or to gain both advantages (Noble, 1978).

Acquisitions

Business analyst and former publisher J. Kendrick Noble, Jr. reports on acquisitions in PW (1978).

> (It) is in the best interests of most new publishers to consider the possibility of merging with one or more other publishers within the lifetimes of the founders, though historically we estimate that most have just gone out of business.

And from the point of view of the successful firms:

> Virtually all surviving publishers of past decades...have made a number of significant acquisitions along the way. As publishers which survive entry typically display cash flow in excess of the limited growth of their initial products, acquisitions are logical steps toward growth in this industry.

Mr. Noble also conducts a limited analysis of the natural life spans of book publishers. He concludes that of the 50 to 100 new publishing firms which start-up each year, two-thirds will go out of business within 30 years - within the founder(s)' lifetime(s).

The preliminary research reported here suggests a series of connected research questions. One, the analysis of the structure of the market and the relations between firms needs to be extended to all subfields in the industry and, where applicable, to suppliers, wholesalers, etc. Two, a major hypothesis emerging is that there are a number of specifiable advantages of bigness. For example, a large trade house has an advantage when selling all kinds of subsidiary rights if for no other reason than the higher level of interaction afforded the seller by the greater number and larger range of books to sell. This set of hypotheses needs to be specified, operationalized where possible, and tested. Three, a thorough analysis of mergers and acquisitions in which publishing houses have participated

since World War II combined with an evaluation of the life cycle of new and independent firms is required to specify the degree and pattern of integration in the industry. Some functions now internal to firms, such as marketing, may have more usually been accomplished by contracting out in the past, but acquisitions in the industry seem to not increase vertical integration. On the other hand there must be some advantage to building a publishing conglomerate. A corollary question is whether or not the various submarkets, such as mass market paperbacks, are so different that combines of sundry publishing represent some important level of true financial diversification.

Book publishing, as I have noted, until recently was considered a genteel vocation (and in some cases, an avocation) whose organization was consciously if not intentionally unlike the usual business enterprise. The shift to modern organization including in-firm marketing, bureaucratic/hierarchical divisions, and administrative coordination represent a general pattern to which publishing is only lately bringing its peculiarities and idiosyncracies (Chandler, 1977; Braverman, 1974; Clawson, 1978). Mergers and acquisitions sometimes resulting in oligopoly are part and parcel of this process.

Finally, although I am sure not exhaustively, at stake are the social costs of the reordering of the book business. Many conflicting claims concerning the cultural outcomes of mergers and about the absolute increase in size of some firms have

already been dragged onto the mat. The resolution of the cultural questions is beyond the immediate range of my research but it is both dependent on it and tied to it.

Final Note

In the interim between the 1972 Census of Manufactures and the forthcoming 1977 data several mergers have occurred, some including one or more of the top 50 firms. This might indicate increased concentration and even higher inequality (Gini).